



Fund Bites

Schroder Global Emerging Markets Fund

The Schroder QEP Global Emerging Markets Fund is not part of the portfolios but forms part of our review of the emerging markets sector. This “fund bites” is a summary of the recent telephone update we had with the product specialist, Amy Dempsey.

Introduction

One area we will be reviewing in the next portfolio rebalance is the Asian and Emerging Market Sector. This has been brought about for three reasons – increasingly it is becoming clear that there are opportunities across these regions and often these regions provide crossover, secondly the main two providers of strategies in both these areas are now facing capacity issues with their funds and thirdly we now have the opportunity to look to offshore funds and this widens the range of funds we can review.

In the last review we introduced the Somerset Emerging Market Fund. Potentially in the next review we may look to create a super sector covering Asia, Emerging Markets and Frontier Markets and therefore it is important to look at other funds which might fit into this sector.

One new fund which has come onto our radar is the Schroder QEP Global Emerging Markets Fund. The fund is new and is offshore. This review provides a brief look at this fund and what our thoughts are.

The Fund

The fund was launched in 2012 and has assets of circa £100 million. The update was with Amy Dempsey who is the product specialist. There are two things we like instantly on this fund, firstly the size which is significantly smaller than many funds in this sector and secondly the approach which is similar to Aberdeen of a team rather than an individual manager.

The approach is about stock selection so looking for good stocks in terms of quality and being cheap. In fact 53.4% of the fund falls under this.

It has around 40% in mega and large caps but the main focus is around the mid cap region. We have indicated that this is where we think the greatest returns can be achieved.

Listening to the team clearly they believe in non-index holdings with around 50% of the fund outside of the index. Although this is based on stocks, country risk plays a part. So for example they use a currency hedge when investing in Turkey and South Africa to mitigate some of the potential downside risk.

The performance since launch has been strong which is positive.

So on paper we have a fund that potentially we like however there are some concerns. We recently reviewed the JM Finn Fund which has over 300 stocks. With this fund we understand the manager's approach but it is a concern for us.

With this fund the team indicated their desire to diversify, to be conviction players and the power of active management against tracking an index and this is where cracks appear in the proposition which would raise concerns for us.

The universe of available stocks is 4000 and the fund holds over 300 stocks which is nearly 10% of the available universe. Although this provides diversification we feel it could compromise performance in the long run and equally it then comes against the JM Finn Fund which is a macro fund with similar stock holdings.

The team were keen to stress their conviction to stock selection however with this level of holdings you cannot hold large positions in particular stocks and in fact the data we have seen is showing most holdings are below 1% which means any movement will be slight.

A concern I have with regards to conviction is stock turnover which was close to 100%. This indicates a high turnover of stock and again shows something opposite to what they are saying about conviction.

Another concern is the highest holding which is a fund which tracks the emerging market index. This is a weighting of over 4%. The team were keen to emphasise the importance

of active management but then have the highest weighting in this area.

These may all seem negatives but these are attributes that we need to consider when making any decisions. The Somerset Fund has around 40 holdings and therefore a diversified fund as a counter balance may be a good thing. If we feel that then the question is whether we look to the JM Finn Fund which encompasses global markets but with a focus on Asia, Emerging Markets and Frontier Markets or the Schroder Fund.

In summary the fund has performed strongly since launch, it is more nimble in terms of assets it manages but there are concerns over the number of holdings and the lack of conviction however this might blend well with current assets which means we won't discount at this time.

Conclusion

We are in a position where we have to review our Asia, Emerging Market and Frontier Market holdings. What we have currently are good, but soft closing of funds means we need to dig deeper and as we have found with Somerset there are some great opportunities to be found.

The source of information in this note has been provided by Schroders and is correct as at 23 September 2013. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase this fund. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise.